



## ENVIRONMENTAL LAW & POLICY CENTER

Protecting the Midwest's Environment and Natural Heritage

### Environmental Law & Policy Center Reply Comments Concerning the 2012 Electric Procurement Events *June 28, 2012*

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The Environmental Law & Policy Center (ELPC) respectfully submits these reply comments in response to the Commission's Public Notice of Informal Hearing (Request for Comments) issued on May 17, 2012. ELPC does not have a financial stake in the IPA's procurement events, but we have a strong desire to see the implementation of Illinois' Renewable Energy Standard (RES) and associated solar and distributed generation carve-outs happen in the most inclusive, cost-effective and efficient manner. We appreciate your consideration of these issues.

#### **1. Distributed Renewable Energy Generation**

Boston Pacific submitted several recommendations for next year's distributed generation (DG) procurement. The first recommendation involves the priority that the IPA should assign to procurement of DG vs. wind and solar renewable energy credits (RECs). Although the IPA Act does not explicitly set relative priorities among various technology preferences, Boston Pacific believes that the Act "implicitly gives DG RECs a higher priority than RECs from wind or solar." Boston Pacific Comments at 14. ELPC takes no position on Boston Pacific's legal argument here. However, it is important to recognize that the DG carve-out operates in conjunction with the wind and solar carve-outs and the two policies are not mutually exclusive.

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Thus, the solar RECs (SRECs) from a distributed solar facility count towards *both* the solar and DG carve-out targets. Accordingly, the IPA can and should design the DG procurement program in a holistic manner that considers all the state's RES goals and carve-outs together and is designed to achieve these targets to the greatest extent possible. For example, it is possible that much of the IPA's DG procurement program should be allocated to distributed solar projects in order to help achieve Illinois' increasing solar ramp-up targets (0.5% by 2012, 1.5% by 2013, 3% by 2014, and 6% by 2015). As many stakeholders pointed out in the IPA's workshop process, the IPA should clearly and explicitly define a volume and dollar budget for solar and non-solar distributed generation as part of its 2013 procurement plan.

Boston Pacific also questions whether DG RECs should be solicited in the same RFP as RECs from other renewable energy resources or, instead, whether the IPA should conduct a "stand-alone" procurement for DG. As noted by Boston Pacific, "a single REC RFP would require that multi-year DG RECs be evaluated against one-year REC bids." Boston Pacific at 15. As discussed at length in the workshops, DG RECs are entirely different products than traditional RECs and should be procured under a separate program. ELPC supports the comments of SEIA and Vote Solar, which recommend a "two-tiered procurement approach for procuring SRECs from systems under 2,000 kW: a periodic competitive process for larger distributed generation systems (between 25kW and 2000 kW), and a fixed-price contract that declines over time (less than 25 kW)."<sup>1</sup>

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<sup>1</sup> See [https://www2.illinois.gov/ipa/Documents/SEIA\\_VS\\_Illinois2012-0330-2-2.pdf](https://www2.illinois.gov/ipa/Documents/SEIA_VS_Illinois2012-0330-2-2.pdf).

ELPC suggests that the IPA study Connecticut's ZREC program ("zero-emission renewable energy credit") as it may provide some good lessons for DG procurement in Illinois. Under Connecticut's ZREC program, utilities will conduct annual procurements as follows:

- The overall statewide budget will be evenly allocated between three system-size tiers. One-third will be allocated to ZRECs from large (250kW-1000kW) systems, one-third from medium (100kW-250kW) systems, and one-third from small (less than 100kW) systems.
- There will be a competitive procurement (reverse auction) for large and medium system ZRECs in the first half of the year. Bidders will submit a fixed price/kWh for a 15-year contract for ZRECs for each size category. Winning bidders will be notified on July 17<sup>th</sup> and contracts will be signed with successful bidders on August 7<sup>th</sup>.
- RECs from small systems will be procured through a tariff rider and a 15-year service agreement that will be published after the results of the auctions are posted and approved. The price will be equivalent to the weighted average accepted bid price in the medium system auction, plus 10%. The 10% adder accounts for economies of scale available to larger system sizes and will help provide the price certainty, transparency, and low transaction costs that developers of small systems need.

More information about the Connecticut program is available at [http://www.clp.com/REC\\_RFP/](http://www.clp.com/REC_RFP/). Regardless of whether the IPA uses the Connecticut program as a model, it should develop a different procurement strategy for under-25 kW and over-25 kW systems that recognize the differences between these market segments.

Boston Pacific questions whether five years is an appropriate contract length for new distributed generation installations or instead whether the term should be longer. Boston Pacific Comments at 15. It is ELPC's understanding that the choice between five-year or ten-year contracts is essentially neutral from a project development and finance perspective so long as the

net present value of the five or ten-year stream of RECs is the same. This means that five-year contracts will necessarily require a higher REC price than longer-term contracts. The choice of contract length will inherently involve a trade-off between the “cost” of RECs (higher for shorter-term contracts) and the IPA’s confidence in its near-term and long-term budgets. If the IPA’s future budget is highly speculative, for example, then the IPA may be more comfortable signing shorter contracts at higher REC prices than longer-term contracts that commit revenue many years into the future. Vote Solar and SEIA have argued that the “optimum contract length is 10 years.”<sup>2</sup> ELPC submits that further discussion is necessary to identify the most appropriate contract length for the IPA’s new distributed generation procurement program.

## **2. Definition of “Other Alternative Sources of Environmentally Preferable Energy.”**

The ICC Staff note that Section 1-10 of the IPA Act includes a definition of renewable energy resources, which limits the resources that the IPA can utilize to satisfy the renewable energy portfolio standard imposed by Section 1-75(c) of the IPA Act. The definition explicitly lists several specific resource types, but the definition also includes the open-ended type, “Other Alternative Sources of Environmentally Preferable Energy.” Staff recommend that the IPA “refine its mechanism for determining which resources fit the open-ended category and for effectively disseminating that information to the necessary parties.” Staff Comments at 7.

ELPC agrees that greater clarity regarding “other alternative sources” of renewable energy could be helpful. However, the IPA should limit “other alternative sources” to those technologies that are similar to the renewable energy resources listed in the Act (“wind, solar

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<sup>2</sup> See [https://www2.illinois.gov/ipa/Documents/SEIA\\_VS\\_Illinois2012-0330-2-2.pdf](https://www2.illinois.gov/ipa/Documents/SEIA_VS_Illinois2012-0330-2-2.pdf) at p. 8.

thermal energy, photovoltaic cells and panels, biodiesel, crops and untreated and unadulterated organic waste biomass, tree waste, hydropower”). At this point, ELPC is not aware of uncertainty or controversies regarding renewable energy technologies that are not explicitly listed in Section 1-10 of the IPA Act. If the IPA becomes aware of such a controversy, ELPC would support a case-by-case rulemaking to address whether a specific technology is a “renewable energy resource.” However, any such determination should follow a public process with the opportunity for full public comment and review.

### **3. ACP Revenues From Hourly-Pricing Customers Under Section 1-75(c)(5) of the IPA Act.**

Staff raise several questions regarding the use of alternative compliance payment (“ACP”) revenues collected from the utilities’ customers on hourly pricing tariffs under Section 1-75(c)(5) of the IPA Act. Staff conclude that, for each plan year,

the IPA should spend the ACP revenues that were collected by the utilities from hourly customers during the “prior year ending May 31,” and to spend those ACP revenues on renewable energy resources: (i) to help fulfill the requirements of paragraphs (1) through (4) of Section 1-75(c), and, to the extent to which there are still funds remaining, (ii) to purchase additional renewable energy resources above and beyond the requirements of paragraphs (1) through (4) of Section 1-75(c).

Staff Comments at 11-12. Staff recommends that the next plan should “quantify the ACP revenues available for spending on renewable energy for the upcoming plan year,” and should further “specify a goal” regarding the purchase of additional renewable energy resources above and beyond the requirements of paragraphs (1) through (4) of Section 1-75(c). Staff Comments at 12. Finally, Staff suggest that the revenues collected from hourly-customers during the June

2010-May 2011 plan year be “credited to the electric supply cost-recovery riders applicable to eligible retail customers.” Staff Comments at 13.

ELPC agrees in large part with Staff’s analysis of this issue. We agree that the IPA should purchase additional renewable energy credits using available ACP funds from hourly customers and that the IPA should quantify the ACP revenues available and specify a goal for these revenues in its forthcoming procurement plan. Regarding the last issue, ELPC respectfully disagrees that the statute would foreclose the IPA from purchasing additional renewable energy credits using revenues from the June 2010-May 2011 plan year. Rather, we submit that purchasing additional RECs would further the intent of the IPA Act to a greater degree than simply crediting this revenue back to the electric supply cost-recovery rider.

#### **4. Transparency of Procurement Results**

ELPC’s review of the Comments of the People of the State of Illinois was hampered by the fact that much of the substance of these comments was redacted. *See* AG Comments at 3-5. Although ELPC agrees that it is appropriate to keep some procurement information confidential, we believe that greater transparency of procurement results would facilitate more informed comments that could result in further improvements to the procurement process. Specifically, as mentioned above, ELPC suggests the IPA develop and publish budgets for the solar and DG carve-outs, be as transparent as possible about the REC price benchmarking process, develop and publish forward projections of budget and load, and disclose the location of the winning bids by state instead of by groups of states. ELPC suggests that the IPA endeavor to make as much

information available to the public as it reasonably can and, where currently limited by law, develop legislative recommendations for enhancing procurement transparency.

## **5. REC Prices**

The People note that the price for renewable energy credits (RECs) has continued to drop in recent procurements – reaching \$0.88 and \$0.80 per MWh for wind power in the most recent procurement. These low prices were obtained solely through one-year REC contracts and may reflect the large existing supply of wind energy located in Illinois and in adjoining states like Iowa and Indiana that are not currently subject to RES requirements. As Illinois' RES targets increase, it will likely become necessary for the IPA to offer longer-term REC contracts in order to promote the development of *new* renewable energy resources – particularly from solar and distributed generation. ELPC recommends that the IPA continue to carefully consider future conditions and requirements when determining the optimal mix of contract lengths in future procurements.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brad Klein". The signature is fluid and cursive, with a long horizontal stroke at the end.

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